

Optional remuneration arrangements for cars

(Lecture P1122 – 10.26 minutes)

Broadly speaking, the optional remuneration arrangement rules operate by comparing the amount of earnings foregone (i.e. the salary sacrificed) with the amount that would normally be charged to tax by reference to the cash equivalent of the benefit involved. As will be recalled, the employee is now taxed on the higher figure.

Two anomalies have been identified in the FA 2017 legislation which have the effect that like is not being compared with like. Legislation has therefore been brought forward in the Finance Bill to ensure that these omissions are corrected. The corrections have effect for 2019/20 onwards (although not so as to bring the FA 2017 regime into play any sooner than would otherwise be the case – for example, with regard to pre-6 April 2017 arrangements).

Firstly, in the case of company cars, the amount foregone under an optional remuneration arrangement should not include amounts foregone in respect of the employer being prepared to pick up the tab for connected benefits such as insurance, road tax and servicing as well as for the car itself. Unfortunately, the original FA 2017 provisions did not achieve this. The amendment in new S120A(4) ITEPA 2003 makes it clear that the amount foregone in respect of any connected benefits (other than for the provision of a driver or fuel, for which there are separate benefit in kind charges) does not represent a separate salary sacrifice.

Secondly, in calculating the cash equivalent of a company car, the deduction available under S132 ITEPA 2003 for capital contributions by an employee (up to a maximum of £5,000) is made before that cash equivalent is reduced for periods during which the car is unavailable to the employee (see S143 ITEPA 2003). In calculating the amount foregone under optional remuneration arrangements, capital contributions are presently deductible without regard to periods of unavailability. In such circumstances, where a taxable car is provided through an optional remuneration arrangement, the amount deductible for capital contributions is overstated where a car is only available for part of a year. The Finance Bill corrects this by requiring the capital contributions themselves (capped, of course, at £5,000) to be reduced to take account of such periods.

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